

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>SIMS-WHITNEY UTILITIES AUTHORITY</b>	County <b>ARENAC</b>
Audit Date <b>06/30/2004</b>	Opinion Date <b>08/20/2004</b>	Date Accountant Report Submitted to State: <b>12/02/2004</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

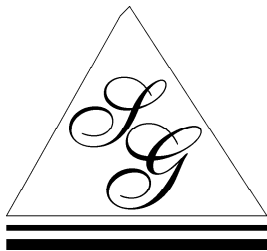
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>STEPHENSON, GRACIK &amp; CO., P.C.</b>			
Street Address <b>325 NEWMAN STREET, PO BOX 592</b>	City <b>EAST TAWAS</b>	State <b>MI</b>	ZIP <b>48730</b>
Accountant Signature 		Digitally signed by Stephenson, Gracik and Co., P.C. DN: cn=Stephenson, Gracik and Co., P.C., c=US Date: 2004.12.12 09:52:28 -0500 Reason: I am approving this document	



*Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

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Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA

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Herman A Bertuleit, CPA

SIMS-WHITNEY UTILITIES AUTHORITY  
ARENAC COUNTY, MICHIGAN

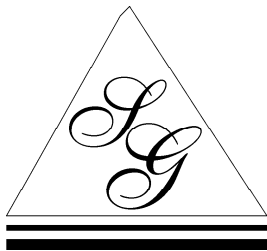
AUDITORS' REPORT  
YEAR ENDED JUNE 30, 2004

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### PAGE

### AUDITORS' REPORT

	INDEPENDENT AUDITORS' REPORT	1
EXHIBIT A	STATEMENT OF NET ASSETS	2
EXHIBIT B	STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	3
EXHIBIT C	STATEMENT OF CASH FLOWS	4
EXHIBIT D	NOTES TO FINANCIAL STATEMENTS	5 - 15
	REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	16 - 17



# *Stephenson Gracik & Co., P.C.*

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-----  
Herman A Bertuleit, CPA

August 20, 2004

## Independent Auditors' Report

Members of the Authority Board  
Sims-Whitney Utilities Authority  
Arenac County, Michigan

We have audited the accompanying financial statements of the business-type activities of the Sims-Whitney Utilities Authority, Arenac County, Michigan, as of and for the year ended June 30, 2004, as shown on pages 3 through 5, which comprise a portion of the Utility Authority's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 2, management has not presented the management discussion and analysis. Accounting principles generally accepted in the United States of America require the presentation of the management discussion and analysis.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Sims-Whitney Utilities Authority, Arenac County, Michigan, as of June 30, 2004, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2004, on our consideration of the Sims-Whitney Utilities Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 2, the Sims-Whitney Utility Authority has partially implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of June 30, 2004.

*Stephenson, Gracik & Co., P.C.*

SIMS-WHITNEY UTILITIES AUTHORITY  
Arenac County, Michigan

STATEMENT OF NET ASSETS  
June 30, 2004

Assets

## Current assets:

Cash and cash equivalents (Note 3)	\$ 146,678
Investments (Note 3)	99,983
Receivables:	
Accounts	6,017
Contracts (Note 1)	3,231,817
Inventories (Note 1)	21,450
Total current assets	<u>3,505,945</u>

Capital assets, net (Note 5)	<u>3,553,858</u>
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Total Assets	<u>7,059,803</u>
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Liabilities

## Current liabilities:

Accounts payable	8,693
Due to local units	33,904
Current portion of long-term liabilities	<u>150,000</u>
Total current liabilities	192,597

## Long-term liabilities:

Noncurrent portion of long term liabilities	<u>3,080,000</u>
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Total Liabilities	<u>3,272,597</u>
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Net Assets

Invested in capital assets	3,553,858
Restricted (Note 1)	155,870
Unrestricted	<u>77,478</u>

Total Net Assets	<u><u>\$ 3,787,206</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

SIMS-WHITNEY UTILITIES AUTHORITY  
Arenac County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended June 30, 2004

Operating Revenues

Charges for services	\$ 236,264
Interest earned	4,498
Rents	13,200
Other	392
Total operating revenues	<u>254,354</u>

Operating Expenses

Salaries and wages	58,328
Payroll taxes	4,294
Employee benefits	24,488
Operating supplies	12,911
Contracted services	6,808
Purchase of water	38,759
Insurance	12,713
Telephone	2,678
Utilities	11,597
Vehicle expense	2,327
Other	6,405
Depreciation	103,793
Total operating expenses	<u>285,101</u>

Operating loss	<u>(30,747)</u>
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Non-Operating Revenue (Expenses)

Local reimbursements	172,860
Bond interest expense and paying agent fees	<u>(172,860)</u>
Total non-operating revenue (expenses)	<u>0</u>

Change in net assets	(30,747)
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Net assets - beginning of year, as restated, (Note 2)	<u>3,817,953</u>
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Net assets - end of year	<u>\$ 3,787,206</u>
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The accompanying notes to financial statements are an integral part of this statement.

SIMS-WHITNEY UTILITIES AUTHORITY  
Arenac County, Michigan

STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2004

Cash Flows From Operating Activities

Cash received from charges for services	\$ 297,560
Cash paid to suppliers and employees	(200,111)
Interest received on deposits	<u>375</u>
Net cash provided by operating activities (Note 8)	<u>97,824</u>

Cash Flows From Capital and Related Financing Activities

Cash purchase of property, plant and equipment	(21,252)
Cash received from contracts receivable	174,933
Reimbursements from local units	172,860
Repayment of bonds payable	(175,000)
Interest and paying agent fees paid	<u>(172,860)</u>
Net cash used by capital and related financing activities	<u>(21,319)</u>

Net increase in cash and cash equivalents 76,505

Cash and cash equivalents at beginning of year (Note 1) 70,173

Cash and cash equivalents at end of year (Note 1) \$ 146,678

The accompanying notes to financial statements are an integral part of this statement.

SIMS-WHITNEY UTILITIES AUTHORITY  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Sims-Whitney Utilities Authority conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The following is a summary of the significant accounting policies.

A. Description of Authority's Operations

The Sims-Whitney Utilities Authority (Authority) operates as a joint venture under the supervision and control of an elected Authority Board (four members) and provides water supply and distribution to its residents for Sims Township and Whitney Township. The Authority was incorporated January 18, 1980 as a joint venture among the above-mentioned municipalities for the purpose of acquiring, owning, improving, enlarging, extending and operating water supply and distribution systems and sewage disposal systems in accordance with the authorization of Act 233, Public Acts of Michigan, 1955, as amended.

Each constituent Township, who are parties to the joint authority, operates and administers their own water department providing services to individual customers of the water system. Those activities of Sims Township and Whitney Township are conducted by the separate governmental entities and are not a part of this report.

The accompanying basic financial statements of the Authority have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, that apply to all proprietary fund type activities, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails, except as noted in Note 2.

Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Fund Accounting

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

**Proprietary Fund**

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Authority's Enterprise Fund reports operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

C. Basis of Presentation

The Authority's basic financial statements consist of fund financial statements which provide a detailed level of financial information.

SIMS-WHITNEY UTILITIES AUTHORITY  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

Fund Financial Statements

During the year, the Authority segregates transactions related to certain Authority functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Authority at a detailed level.

D. Measurement Focus and Basis of Accounting

The term measurement focus is used to denote what is being measured and reported in the Authority's operating statement. The Authority is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Authority is better or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction or event is recognized on the Authority's operating statement. The Authority uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

E. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Authority are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

G. Other

Contracts Receivable

Contracts receivable consist of monies due to the Authority from Sims Township and Whitney Township for reimbursement of the various bonds payable of the Authority.

Inventories

Inventories are recorded at average cost which approximates market. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed rather than when purchased.

SIMS-WHITNEY UTILITIES AUTHORITY  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Other (Continued)

Capital Assets

Capital assets are stated at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the assets.

Expenditures for maintenance, repairs and renewals are charged to operations as incurred and betterments are capitalized. The Authority eliminates the cost and related allowances from the accounts for assets sold or retired and resulting gains or losses therefrom are included in operations concurrently.

Restricted Net Assets

Restricted net assets represents the assets to be used for future tower, filter and vehicle replacements.

Charges for Services

Revenue from the sale of water services is billed and recognized by each individual municipality. The Authority recognizes revenue for services as charged to each municipality based on an agreement between the Authority and the municipalities. Each municipality will reimburse the Authority their share of the operating and maintenance budget costs. Variable costs are allocated in direct proportion of gallons pumped per municipality to total gallons pumped by the Authority. Fixed costs are shared equally by the Townships.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS

Change in Accounting Principles

For 2004, the Authority has implemented, with exceptions as noted below, Governmental Accounting Standards Board (GASB) Statement Number 33 "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement Number 36 "Recipient Reporting for Certain Shared Non-Exchange Revenue," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting; GASB Statement No. 34, "Basic Financial Statements -and Management's Discussion and Analysis -for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; and GASB Statement No. 38, "Certain Financial Statement Note Disclosures".

GASB Statement No. 34 creates new basic financial statements for reporting on the Authority's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type. The government-wide financial statements split the programs between governmental activities and business-type activities.

SIMS-WHITNEY UTILITIES AUTHORITY  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS (CONTINUED)

Change in Accounting Principles (Continued)

The Authority did not adopt GASB 34 and GASB 37 in its entirety, as permitted by the Local Audit and Finance Division of the Treasury Department of the State of Michigan (State of Michigan), because the Authority believes that the cost of implementing the statements may exceed the benefit of the additional information. The Authority also believes that the omission of the Management Discussion and Analysis was not material to the statements as a whole.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

Restatement of Net Assets

The restatement due to the implementation of the above statements and interpretation had the following effects on fund equity as it was previously reported.

Net assets as originally stated at June 30, 2003	\$ 230,156
Restatement of contributed capital in accordance with GASB 33	<u>3,587,797</u>
Net assets as restated at June 30, 2003	<u>\$ 3,817,953</u>

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Authority's deposits and investments were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents	\$ 146,678
Investments	<u>99,983</u>
	<u>\$ 246,661</u>

The breakdown between deposits and investments is as follows:

Bank Deposits (checking and savings accounts, certificates of deposit)	<u>\$ 246,661</u>
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SIMS-WHITNEY UTILITIES AUTHORITY  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits:

Deposits are carried at cost. Deposits of the Authority are held at various banks, in the name of the Authority. At June 30, 2004, the carrying amounts of the Authority's deposits were classified to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 235,009	\$ 235,009
Uninsured-uncollateralized	<u>11,652</u>	<u>16,963</u>
	<u>\$ 246,661</u>	<u>\$ 251,972</u>

Investments:

The Authority Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Authority to deposit and invest in the following:

- \* Accounts of federally insured banks, credit unions and savings and loan associations
- \* Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- \* United States government or federal agency obligation repurchase agreements
- \* Banker's acceptances of United States banks
- \* Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- \* Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

NOTE 4 - UNEMPLOYMENT COMPENSATION

The Authority is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Authority must reimburse the State for all benefits charged against the Authority. No liabilities were due as of June 30, 2004.

SIMS-WHITNEY UTILITIES AUTHORITY  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Balance</u> <u>07/01/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/04</u>
Equipment	\$ 31,232	\$ 0	\$ 0	\$ 31,232
Vehicles	13,972	0	0	13,972
Water system	<u>5,039,309</u>	<u>21,252</u>	<u>0</u>	<u>5,060,561</u>
	5,084,513	21,252	0	5,105,765
Less accumulated depreciation	<u>(1,448,114)</u>	<u>(103,793)</u>	<u>0</u>	<u>(1,551,907)</u>
Net property, plant and equipment	<u>\$ 3,636,399</u>	<u>\$ (82,541)</u>	<u>\$ 0</u>	<u>\$ 3,553,858</u>

The water system is stated at cost. Depreciation is calculated using straight-line basis at the rate of 2% to 20% per year. The estimated useful lives are as follows:

Water system	50 years
Equipment and vehicles	5 years

NOTE 6 - LONG-TERM LIABILITIES

Bonds Payable

\$1,161,000 Water Revenue Bond Issue Dated December 18, 1984 of Sims-Whitney Utilities Authority (Water System Bond)

Said bonds are issued for the purpose of financing the construction of additions, extensions, improvements and related appurtenances to the Sims-Whitney Utilities Authority's water system. The payments of principal and interest are made from the proceeds of contractual payments to be made by Sims Township and Whitney Township. The municipalities have pledged their full faith and credit for the payment of their contractual payments. The Authority has pledged the contractual payments and its full faith and credit for payment.

Annual Principal and Interest Requirements

<u>Fiscal Year</u>	<u>July 1</u> <u>Interest</u>	<u>July 1</u> <u>Principal</u>	<u>January 1</u> <u>Interest</u>	<u>Total</u> <u>Future Annual</u> <u>Requirements</u>
2004-05	\$ 0	\$ 0	\$ 16,750	\$ 16,750
2005-06	16,750	26,000	16,100	58,850
2006-07	16,100	27,000	15,425	58,525
2007-08	15,425	29,000	14,700	59,125
2008-09	14,700	30,000	13,950	58,650
2009-10	13,950	31,000	13,175	58,125
2010-11	13,175	33,000	12,350	58,525
2011-12	12,350	35,000	11,475	58,825
2012-13	11,475	37,000	10,550	59,025
2013-14	10,550	38,000	9,600	58,150

SIMS-WHITNEY UTILITIES AUTHORITY  
Arenac County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)\$1,161,000 Water Revenue Bond Issue Dated December 18, 1984 of Sims-Whitney Utilities Authority (Water System Bond) (Continued)

<u>Annual Principal and Interest Requirements</u>				Total
<u>Fiscal Year</u>	<u>July 1 Interest</u>	<u>July 1 Principal</u>	<u>January 1 Interest</u>	<u>Future Annual Requirements</u>
2014-15	\$ 9,600	\$ 40,000	\$ 8,600	\$ 58,200
2015-16	8,600	42,000	7,550	58,150
2016-17	7,550	44,000	6,450	58,000
2017-18	6,450	47,000	5,275	58,725
2018-19	5,275	49,000	4,050	58,325
2019-20	4,050	51,000	2,775	57,825
2020-21	2,775	54,000	1,425	58,200
2021-22	<u>1,425</u>	<u>57,000</u>	<u>0</u>	<u>58,425</u>
	<u>\$ 170,200</u>	<u>\$ 670,000</u>	<u>\$ 170,200</u>	<u>\$ 1,010,400</u>

\$815,000 Limited Tax General Obligation Bond Issue Dated March 1, 1999 of Sims-Whitney Utilities Authority (Water Supply System No. 1 Bonds)

Said bonds are issued for the purpose of financing the construction of additions, extensions, improvements and related appurtenances to the Sims-Whitney Utilities Authority's water system. The payments of principal and interest are made from the proceeds of contractual payments to be made by Sims Township and Whitney Township. The municipalities have pledged their full faith and credit for the payment of their contractual payments. The Authority has pledged the contractual payments and its full faith and credit for payment.

<u>Annual Principal and Interest Requirements</u>				Total
<u>Fiscal Year</u>	<u>October 1 Interest</u>	<u>October 1 Principal</u>	<u>April 1 Interest</u>	<u>Future Annual Requirements</u>
2004-05	\$ 15,425	\$ 30,000	\$ 14,847	\$ 60,272
2005-06	14,848	30,000	14,247	59,095
2006-07	14,248	30,000	13,632	57,880
2007-08	13,633	40,000	12,792	66,425
2008-09	12,793	40,000	11,932	64,725
2009-10	11,933	40,000	11,052	62,985
2010-11	11,053	40,000	10,152	61,205
2011-12	10,153	40,000	9,232	59,385
2012-13	9,233	45,000	8,175	62,408
2013-14	8,175	50,000	6,975	65,150
2014-15	6,975	50,000	5,750	62,725
2015-16	5,750	50,000	4,500	60,250
2016-17	4,500	60,000	3,000	67,500
2017-18	3,000	60,000	1,500	64,500
2018-19	<u>1,500</u>	<u>60,000</u>	<u>0</u>	<u>61,500</u>
	<u>\$ 143,219</u>	<u>\$ 665,000</u>	<u>\$ 127,786</u>	<u>\$ 936,005</u>

SIMS-WHITNEY UTILITIES AUTHORITY  
Arenac County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)\$2,265,000 Limited Tax General Obligation Bond Issue Dated December 13, 1999 of Sims-Whitney Utilities Authority (Water Supply System No. 1 Bonds)

Said bonds are issued for the purpose of financing the construction of additions, extensions, improvements and related appurtenances to the Sims-Whitney Utilities Authority's water system. The payments of principal and interest are made from the proceeds of contractual payments to be made by Sims Township. The municipality has pledged their full faith and credit for the payment of their contractual payments. The Authority has pledged the contractual payments and its full faith and credit for payment.

<u>Fiscal Year</u>	<u>Annual Principal and Interest Requirements</u>			<u>Total Future Annual Requirements</u>
	<u>August 1 Interest</u>	<u>August 1 Principal</u>	<u>February 1 Interest</u>	
2004-05	\$ 51,886	\$ 120,000	\$ 48,946	\$ 220,832
2005-06	48,946	120,000	46,006	214,952
2006-07	46,006	120,000	43,006	209,012
2007-08	43,006	120,000	39,946	202,952
2008-09	39,946	120,000	36,826	196,772
2009-10	36,826	120,000	33,646	190,472
2010-11	33,646	120,000	30,406	184,052
2011-12	30,406	120,000	27,106	177,512
2012-13	27,106	120,000	23,746	170,852
2013-14	23,746	120,000	20,326	164,072
2014-15	20,326	120,000	16,876	157,202
2015-16	16,876	115,000	13,541	145,417
2016-17	13,541	115,000	10,178	138,719
2017-18	10,178	115,000	6,785	131,963
2017-18	6,785	115,000	3,393	125,178
2019-20	<u>3,393</u>	<u>115,000</u>	<u>0</u>	<u>118,393</u>
	<u>\$ 452,619</u>	<u>\$ 1,895,000</u>	<u>\$ 400,733</u>	<u>\$ 2,748,352</u>

The following is a summary of long-term liability transactions of the Authority:

	<u>Balance 07/01/03</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06/30/04</u>	<u>Amount Due in One Year</u>
General Obligation Bonds	\$ 2,710,000	\$ 0	\$ 150,000	\$ 2,560,000	\$ 150,000
Revenue Bonds	<u>695,000</u>	<u>0</u>	<u>25,000</u>	<u>670,000</u>	<u>0</u>
	<u>\$ 3,405,000</u>	<u>\$ 0</u>	<u>\$ 175,000</u>	<u>\$ 3,230,000</u>	<u>\$ 150,000</u>

The interest expenditures on long-term obligations for the year were \$172,860.

SIMS-WHITNEY UTILITIES AUTHORITY  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 7 - SEGMENT INFORMATION

The Authority's segment information for the years ended June 30, 2004 is as follows:

Operating revenue	\$	254,354
Depreciation expense	\$	103,793
Operating loss	\$	(30,747)
Change in net assets	\$	(30,747)
Property, plant and equipment additions	\$	21,252
Net working capital	\$	81,531
Bonds payable	\$	3,230,000
Total net assets	\$	3,787,206

NOTE 8 - RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$	(30,747)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation		103,793
Interest on investments		(4,123)
Changes in assets and liabilities:		
Increase in accounts receivable		(288)
Decrease in due from local units		20,526
Increase in inventory		(21,450)
Increase (decrease) in accounts payable		2,859
Increase in due to local units		<u>27,254</u>
Net cash provided by operating activities	\$	<u>97,824</u>

NOTE 9 - RETIREMENT SYSTEM – MERS OPERATED

Plan Description

The Authority's defined benefit pension plan, covering its employees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple - employer, state-wide, public employee pension created under Public Act 135 of 1945, and now operating under Public Act 220 of 1996, and the MERS Plan Document as revised. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

SIMS-WHITNEY UTILITIES AUTHORITY  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 9 - RETIREMENT SYSTEM – MERS OPERATED (CONTINUED)

Funding Policy

The Authority is required to contribute at an actuarially determined rate. The current rate is 10.27% of annual covered payroll for all employees. If a member leaves the employ of the Authority, or dies, without a retirement allowance or other benefit payable on his account, the member's accumulated contributions (plus interest at a rate determined by MERS) will be refunded to the member, if living, or to the member's beneficiary.

Annual Pension Cost

For 2004, the Authority's annual pension cost of \$5,814 was equal to the Authority's and employees required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return, (b) projected salary increases of 4.5% per year compounded annually, (c) additional projected salary increases of 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) 2.5% per year cost-of-living adjustments. Both (a) and (b) include an inflation component. The Authority's unfunded actuarial accrued liability has been calculated and accrued at June 30, 2004.

The Authority has adopted GASB 27 *Accounting for Pensions by State and Local Governmental Employer*. The following pension information is presented in accordance with GASB 27:

Actuarial Accrued Liability from December 31, 2003

Actuarial Valuation

Retirees and beneficiaries currently receiving benefits	\$	0
Terminated employees (vested former members) not yet receiving benefits		13,815
Current employees -		
Accumulated employee contributions including allocated investment income		0
Employer financed		<u>74,633</u>
Total Actuarial Accrued Liability		88,448
Net assets available for benefits, at actuarial value (Market value is \$68,113)		<u>74,595</u>
Unfunded Actuarial Accrued Liability	\$	<u>13,853</u>

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/02	\$ 5,255	100%	\$ 0
06/30/03	\$ 5,107	100%	\$ 0
06/30/04	\$ 5,814	100%	\$ 0

SIMS-WHITNEY UTILITIES AUTHORITY  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

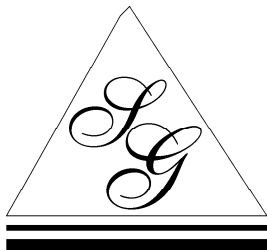
NOTE 9 - RETIREMENT SYSTEM – MERS OPERATED (CONTINUED)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/01	\$ 54,814	\$ 65,541	\$ 10,727	84%	\$ 51,553	21%
12/31/02	\$ 62,804	\$ 74,809	\$ 12,005	84%	\$ 52,417	23%
12/31/03	\$ 74,595	\$ 88,448	\$ 13,853	84%	\$ 56,153	25%

NOTE 10 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority continues to carry commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.



# *Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

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Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
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Donald W. Brannan, CPA  
Kyle E Troyer, CPA  
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Herman A Bertuleit, CPA

August 20, 2004

## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Authority Board  
Sims-Whitney Utilities Authority  
Arenac County, Michigan

We have audited the financial statements of the business-type activities of the Sims-Whitney Utilities Authority, as of and for the year ended June 30, 2004, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated August 20, 2004. The report on the business-type activities was qualified because the Management Discussion and Analysis was not included in the basic financial statements. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Sims-Whitney Utilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sims-Whitney Utilities Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Sims-Whitney Utilities Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

### Separation of Duties in the Performance of Functions

The present system of internal accounting controls does not provide for separation of duties in the performance of functions. In our opinion, the system is adequate to account for the financial activity of the Authority but could be strengthened by a few minor changes in the personnel assigned to perform certain functions.

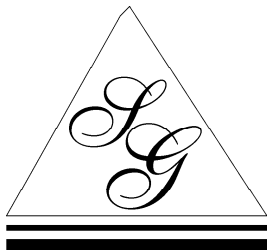
We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks and without access to noncash accounting records and not involved in reconciling bank accounts. A different person should prepare checks and reconcile the bank accounts.

Members of the Authority Board  
Sims-Whitney Utilities Authority  
August 20, 2004  
Page Two

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management, Authority Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grunh & Co., P.C.*



# *Stephenson Gracik & Co., P.C.*

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-----  
Herman A Bertuleit, CPA

August 20, 2004

Members of the Authority Board  
Sims-Whitney Utilities Authority  
Arenac County, Michigan

Dear Board Members:

We have audited the financial statements of the Sims-Whitney Utilities Authority for the year ended June 30, 2004, and have issued our report thereon dated August 20, 2004. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated April 22, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Sims-Whitney Utilities Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Sims-Whitney Utilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

## Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Sims-Whitney Utilities Authority are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, the Sims-Whitney Utilities Authority changed accounting policies as a result of adopting, with certain exceptions, Statements of Governmental Accounting Standards (GASB Statements) no. 34, 33, 36, 37 and 38 in the year ended June 30, 2004. We noted no transactions entered into by the Sims-Whitney Utilities Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

## Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

## Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Sims-Whitney Utilities Authority's

financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Sims-Whitney Utilities Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Sims-Whitney Utilities Authority's financial reporting process.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Sims-Whitney Utilities Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

#### Additional Information

As a result of our study and evaluation of the internal controls as described in the third paragraph, certain matters came to our attention upon which we would like to comment and offer the following recommendations:

#### Separation of Duties in the Performance of Functions

The present system of internal control does not provide for separation of duties in the performance of functions. In our opinion, the system is adequate for the financial activity of the Authority but could be strengthened by a few minor changes in the personnel assigned to perform cash functions.

We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks and without access to noncash accounting records and not involved in reconciling bank accounts. A different person should prepare checks and reconcile the bank accounts.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Authority.

This information is intended solely for the use of management, Authority Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grubb & Co., P.C.*